

October 24, 1962

MEMORANDUM

TO: The Secretary

FROM: Aryneas Joy Kickens

SUBJECT: Market Reactions to the Cuban Crisis

The markets are reacting to the Cuban crisis in the same way as to the Korean and Suez crises. Commodities traded in international markets are rising sharply, especially futures prices. Stock prices are falling both here and on European exchanges, which opened down today as did the New York stock exchange. Later in the day, however, stocks rallied here.

Regarding possible action programs, it is premature, in my opinion, to make any moves toward regulation of basic commodity prices to check the present rise, because supplies are very large, with the possible exception of sugar. Stockpile policy should be reviewed promptly, especially for metals, as the Department of Agriculture is now reviewing its policy with respect to grains. Stockpiles that were a burden last week may be a blessing today. Selling plans may have to be suspended.

Gold prices are a real problem for the Federal Reserve Board. There will be a flight to gold as evidenced by the sharp rise in price in London to \$35.1820 today. Today's market, however, is quieter than yesterday's. The situation can be serious in view of the very large dollar credits held abroad which are convertible into gold here.

Details of recent developments are summarized below:

Commodity prices have risen sharply largely because of speculative buying and short covering. Prices for most international commodities have been weak this year and supplies are very large. However, interference with transportation could reduce effective supplies and rising ocean transport costs could form a basis for price and cost increases.

World sugar prices went up one-half cent on both Tuesday and Wednesday ("World sugar" is sugar not covered by quota agreements such as we have with Puerto Rico and Hawaii).

Prices of other tropical products - coffee, cocoa and rubber - rose by similar amounts.

Cotton, wool and hides were also up.

The prices of copper, lead and zinc rose sharply, although stockpiles are large and the markets have been weak recently.

Domestic wheat and other grains moved up on heavy trading on Tuesday - wheat by 3 to 3-7/8 cents a bushel; corn by 3-5/8 to 5 cents. One influence was a Department of Agriculture announcement that it had temporarily stopped selling surplus corn and wheat grains. An announcement at 11 A.M. this morning indicated that this policy had been revised and that supplies were being released for export and also for sales at farm elevator centers, but not at main storage elevators. This indicates that the Department of Agriculture is very much on top of the grain market situation. They are, no doubt, also reviewing policy with respect to cotton.

In view of the very large supplies of all domestic farm products, it should be possible to use these supplies to hold down farm prices without price controls.

I have suggested to the Bureau of Labor Statistics staff that they prepare a memorandum giving historical comparisons of the behavior of international commodities in past crises. It may also be advisable for them to speed up their collection of daily spot market prices for the official daily index and to obtain prices and issue reports on the day to which the figures relate, as we have done previously in periods of emergency.

The stock market fell sharply on both Monday and Tuesday (October 22 and 23). It opened off this morning but then rallied to close higher with a heavy volume of sales on all three days. Yesterday (October 23) the Dow Jones average was off 10 points, and had broken through the previous "testing point" of 560 to 558, still above the June lows. Today's average was 562 at 2 P.M.

Although weakness in the stock market had developed even before the Cuban crisis, this drop brings prices down something like 10 percent below the August high. The stock market usually reacts to uncertainty in this fashion. An additional reason for the drop is the belief that no Federal tax cut will be possible in view of the Cuban situation, and the market had apparently been discounting a tax cut.

Gold

Hoarding of gold is common in such crises as this, especially in Europe and the Middle East and in view of the large dollar credits held abroad, a sharp short-term movement could occur.

The potential danger of a serious gold outflow can be mitigated, however, by newly-created machinery for dealing with just such crises as this. Today the International Monetary Fund's \$6 billion foreign exchange reserve became effective, with the announcement that the United States had subscribed its \$2 billion to this fund. It was also announced that we had concluded substantial borrowing of Swiss francs.

The Federal Reserve is no doubt authorizing dealings in gold by the Bank of England, under arrangements agreed to after the 1961 gold crisis, so that the London gold market is said to be quieter today than yesterday. I will check this out with the Federal Reserve Board in more detail tomorrow.

cc: The Under Secretary
Assistant Secretary Reynolds
Mr. Clegg